

Kentucky Agricultural Development Board

Minutes of the January 7, 2005 Special Board Meeting

A special meeting of the Kentucky Agricultural Development Board was held on **Friday, January 7, 2005 at 10:00 A.M. CT**, at the Executive Inn Rivermont in Owensboro, KY. Commissioner Richie Farmer, presiding, called the meeting to order, and the Secretary called the roll.

Members Present

Donna Amburgey; H. H. Barlow; Daniel Case; John Cleaver; Rodney Dick; Commissioner Richie Farmer; Wayne Hunt; Sam Lawson; Jim Mahan; Sam Moore; Dean M. Scott Smith (Jimmy Henning, designee); Secretary Gene Strong (Steve Dale, designee)

Members Absent

Governor Ernie Fletcher; Dennis Griffin; Vickie Yates Brown

Others Present

Staff - Catherine Ball; Angela Blank; David Bratcher; Brian Furnish; Tim Hughes; Bill McCloskey; Lucinda Pease; Keith Rogers; **Guests** – Steve Wagoner, Muhlenberg County Cattlemen's Association; Michael Judge, Kentucky Department of Agriculture (KDA); Mac Stone, KDA; Sharon Burton, The Farmer's Pride, Jean-Marie Lawson, Hartland Equipment; William Rud; Robert Amburgey

Notification of Media

Commissioner Richie Farmer received verification from Keith L. Rogers, Chief Executive Officer, that the media had received notice regarding the Agricultural Development Board meeting. Mr. Rogers let everyone know that there was media present.

Welcome

Commissioner Farmer welcomed everyone to Owensboro.

Approval of Minutes

Wayne Hunt moved to approve the December 17, 2004 minutes as presented. Mr. Dick seconded the motion. The motion passed without dissent.

Business

Discussion on West Kentucky Growers Cooperative

Commissioner Farmer yielded the floor to Keith Rogers for the discussion on West Kentucky Growers Cooperative (WKGC).

Mr. Rogers thanked the Board for coming to the meeting. Mr. Rogers explained that there was a packet mailed to the Board and that there was a letter from Dennis Griffin

that would be read. Also Joe Cecil, manager of WKGC, would be allotted fifteen minutes for a presentation and then they would discuss the request from WKGC. Mr. Rogers explained in the Board's update folder there was a memo from Catherine Ball stating the applicable KRS exemption for closed session if necessary. There were also two articles from The Farmer's Pride and a page listing proposed options drafted by the Governor's Office of Agricultural policy staff. Mr. Rogers wanted to be clear the staff is not making a recommendation due to the fluidness of the situation. The more flexibility that the Board has the better off they will be in making their decision.

Mr. Rogers passed around three letters from area legislators that had been delivered to him. (On File with Board Secretary)

Bill McCloskey discussed the packet that was mailed to the Board.

Mr. McCloskey then yielded the floor to Joe Cecil.

Mr. Cecil thanked everybody for being able to speak here today and he thanked the ADB for all the support that WKGC has received. Mr. Cecil explained that WKGC is growing in many ways. They are growing and learning everyday. Mr. Cecil feels there will be a profit in the future because they are about family farms and their future is built on high quality. Mr. Cecil wanted the Board to realize that goals take time. Mr. Cecil introduced the growers, staff, and Board of Directors that represent sixty-seven households of farm families in the community. WKGC wanted to provide away for family farms to diversify. WKGC has the vision of the future. They have had many obstacles but are still here and realize that Mother Nature can destroy profits in a matter of minutes. Mr. Cecil believes WKGC is at a turning point and that the biggest asset is WKGC growers. WKGC is asking the Board to please take into consideration their request.

Mr. Rogers thanked Mr. Cecil for his presentation.

Mr. Rogers read Dennis Griffin's Letter. (On File with Board Secretary)

Mr. Rogers yielded the floor to Mr. McCloskey.

Mr. McCloskey introduced Allan Taylor, Chairman of the Board of Directors for WKCG.

Mr. McCloskey asked if there were any questions for Mr. Taylor.

Mr. Hunt asked how many full-time employees are there. Mr. Cecil answered three.

Mr. Hunt asked if that was how many there were in your projection sheet. Mr. Cecil answered yes, and WKGC is also going to lay off one more person in the next couple weeks.

Mr. Hunt believes we need to look at the Cooperative as a vegetable industry not just WKGC. Mr. Hunt believes it is a magnificent facility and the Board has done its share by putting money into the cooperative every year. You can at least see where the money has gone. Mr. Hunt would like to see if we can get it through one more year.

Mr. Hunt asked how many people on the Board are in this room. Mr. Cecil answered there are nine and one that is on his way.

Mr. Hunt asked if the cost of boxes purchased was \$203,000 every year. Mr. Cecil explained that all the cost is recovered from the growers before they receive a payment. The cost for packing materials including boxes is deducted from their check. Waylon Ramming explained packing is deducted including cooling charges.

Mr. Taylor explained that what is being missed here is that the growers have investments in this and have given over five million dollars.

Mr. Cecil explained the difference in WKGC and Purchase Area Aquaculture Cooperative is the growers are not paid until everything is paid for. WKGC growers address the cost before they get a single penny.

Mr. Lawson explained that he agreed with Mr. Griffin on that if you look at WKGC on a large scale it is impossible. Mr. Lawson understands, but wants to look at this issue, not as one cooperative, but look at all the cooperatives that are struggling. It needs to be a statewide effort not just one cooperative. Mr. Lawson wants the Board to consider one hub in the state that can make the deals and deal with all the potential crops. All cooperatives would work with this one hub. Mr. Lawson feels if we have each group maintain their own cooperative it is not going to work. Mr. Lawson told WKGC if you are interested in owning your own cooperative I'll agree with Mr. Griffin. If you are more interested in marketing your product statewide he will agree with WKGC.

Mr. Hunt told Mr. Lawson that he had visionary approach, however if the Board stopped funding this cooperative then the state could lose all of the cooperatives. Mr. Hunt feels you have to try to sustain the operation and is pleading to board to keep this alive.

Mr. Cecil explained to Mr. Lawson that what he described was a great vision. There are organizations that have been funded by the Agricultural Development Board (ADB). Mr. Cecil explains that WKGC constantly talk about the concept that Mr. Lawson is talking about. We are looking at what is the proper avenue to get there in the future. Mr. Cecil explains we have to become successful in all of our individual parts.

Mr. Lawson believes that they can not get there the way they are presently handling things.

Donna Amburgey believes the Board's purpose is to help farmer not to harm farmers or cause farmers go into bankruptcy. But at the same time, she feels this is a business and at some point you have to make a profit. It has been five years and it still looks like there is going to be no profit. Ms. Amburgey says her point is the Board is here to help you, but you have to have a profit.

Mr. Taylor wanted to restate to the Board that WKGC's projection would have been good if the weather had not harmed them.

Mr. Moore asked to hear Larry Snell's perception from Kentucky Cooperative Center for Development (KCCD).

Commissioner Farmer agreed with this. He would like to say personally these people have made a lot of changes for the better. We, as the Board, need to try to keep these people floating.

Mr. Snell explained that KCCD works with all of these different cooperatives. First thing we did was a management audit for WKCG which was well received. Mr. Snell explained that they had a business plan, but they lost everything in the field because of the weather. Mr. Snell explained that no business plan or management could have made any of these cooperatives profitable because of the weather. Mr. Snell believes that the Board also needs to consider weather in other states, such as Delaware. It had high yields in soybeans but the worst year in vegetables. Mr. Snell feels that the cooperative can be successful if they watch their costs. He would like for the Board to give them a chance.

Sam Moore asked under the business plan that WKGC has can they be profitable? Mr. Snell answered, yes you are looking at a very conservative minimal budget and the WKGC Board has to do their part, but it can be done.

Mr. Mahan explained that timing is so critical in agriculture. The timing is wrong to stop funding on WKGC. I think vegetables in Kentucky are what House Bill 611 is all about. Mr. Mahan believes we have not given enough thought on how the weather played into WKGC loss.

H. H. Barlow said that one thing we have not secured is a marketplace and that is something we have to secure. It is an operational cost like buying fertilizer, etc. Mr. Barlow explains that he is in favor of helping WKGC. We need vegetables in this state, but a marketplace is absolutely necessary.

Mr. Hunt asked if WKGC gets the \$300,000 then you do not have to have the bank involved?

Mr. Cecil responded that is correct.

Mr. Moore's concern is that if we close the door the Board is admitting that there is no space in Kentucky for vegetables. If we do not fund WKGC, then commercial operations will be gone. Mr. Moore is in favor of keeping WKGC in business for another year.

John Cleaver explained that he is sympathetic but, asked WKGC if they see a future in growing vegetables and are you making money.

Kevin Tremble replied yes farmers are making money. Mr. Cleaver asked even with the large percentage taken out of your take home profit. Mr. Tremble answered yes because there is no place to take the vegetables if WKGC was not there. Mr. Cleaver wants them to succeed but thinks we need to have a market and a reasonable amount of time to turn a profit.

Mr. Lawson explained that each of the farmers are a separate business and the cooperative is a separate business.

Mr. Cecil explained to make it a success each individual cooperative has to be successful.

Mr. Lawson said are we talking about whether to keep it all here in Owensboro or expanding it to a state-wide project.

Mike Keen, from the University of Kentucky, challenges the Board from an education standpoint. We are in a very large changing environment in agriculture and this state needs more than five years to jump in an industry.

Jimmy Henny echoed what Mr. Keen said. We need to factor in the education and timing. This is not the time to say you are on your own.

Rodney Dick asked the question of whether more than one bank had been consulted. Mr. Cecil responded that there were three different banks that WKGC had consulted.

Commissioner Farmer asked if there were any more questions.

Mr. Moore asked if there was any new talk with the bank about securing the operating line for 2005. Would they be able to put that on a longer term and then pay it all off at the end.

Mr. Hunt suggests that we look at granting \$200,000 to them. For operating loan we would match what they could bring it to us. We would fund \$200,000 as disaster cost and match whatever they raise as operating line. It would be a loan. It would take the bank out of the equation. Mr. Hunt feels the production manager is an essential piece. It is the management's responsibility.

Mr. Barlow moved that we grant \$200,000 to WKGC for their loss and we loan them what they come up with in match. Also the \$28,500 which is half the cost for an operating manager as a grant.

Mr. Rogers responded that they need a date by which WKGC must comply

Rod Kegel, WKGC Board member, explained that he would like a guarantee to take to the bank.

Steve Dale had a question on the \$150,000 match. Mr. Dale wanted to know how the Board feels about taking the whole \$300,000.

Mr. Kegel explained that he would probably pull the plug on signing that.

Gary Edmonds responded that WKGC does not have \$150,000.

Mr. Rogers called for a recess until 12:45 p.m.

Commissioner Farmer reconvened the Board Meeting at 1:00 p.m.

Mr. Barlow withdrew his previous motion.

Mr. Barlow moved to go into closed session. Mr. Dick seconded the motion. The motion passed without dissent.

Commissioner Farmer reconvened the Board Meeting.

Mr. Lawson wanted to review that a regional cooperative plan will not sustain itself. Mr. Lawson wants a state, centrally located office that people can identify what we can grow the best in Kentucky. Mr. Lawson feels if we focus on moving to a state wide picture that this will allow us to review this request as a gap in funding to get a market for this year so you can do the things you need to do. So, collectively you work toward a statewide organization.

Mr. Rogers asked WKGC if they still have the ability to draw from the current operating note at Independence Bank. Mr. Cecil explained that he did not know, but he feels if WKGC comes with something concrete that the bank may reconsider.

Mr. Lawson moved that The Agricultural Development Board (ADB) provide West Kentucky Growers Cooperative (WKGC) a disaster grant in the amount of \$200,000 to cover the 2004 operating losses. Funds will be provided to Independence Bank by March 1, 2005 to pay down the operating note. If the Independence Bank note balance is below \$200,000 on March 1, 2005 the balance will be provided to WKGC.

The ADB will provide WKGC a grant for half of the projected budget amount for Production Manager Position, \$28,500. The Production Manager position shall not be filled until terms of this agreement have been executed. The funding will be provided in one payment by March 1, 2005.

The ADB will provide WKGC a \$200,000 loan for 2005 working capital. This \$200,000 loan will be repaid by December 31, 2005 or WKGC will exercise one of two options:

- Fund the shortage with grower assessments; or
- Liquidate the WKGC.

WKGC must meet the following terms to receive the funding described above:

- WKGC must provide the ADB by 8:00 a.m. February 18, 2005 with grower contracts based on volume to be produced on 400 acres as represented in the 2005 budget, excluding sweet corn.
- WKGC must provide ADB with a letter of commitment from a lending institution or documentation of other funding sources that will be provided to WKGC for the additional \$100,000 operating capital for 2005 by 8:00 a.m. February 18, 2005.
- WKGC accounts receivable regarding member/growers for the 2004 growing season must be collected by 8:00 a.m. February 18, 2005 or WKGC shall provide documentation to the ADB that legal action has been initiated to recover any member/grower accounts not collected by 8:00 a.m. February 18, 2005.
- WKGC management and a representative of the Board or Directors will update the ADB at its January 21, 2005 and February 18, 2005 meetings regarding the status of implementing these terms list above.

WKGC and its growers further agree to:

- Continue to add to the working capital account with the patronage retainage established in 2004.
- Lead the pursuit of a statewide marketing cooperative by converting the remaining balance of their KCADE grant received in 2003 to the feasibility study currently underway by the KPAA.

Mr. Hunt seconded the motion. The motion passed with dissention.

Donna Amburgey moved to adjourn at 2:10 P.M. CT. Wayne Hunt seconded the motion. The motion passed without dissent.

Closing Remarks

The next meeting of the Kentucky Agricultural Development Board will convene at 10:00 A.M. on Friday, January 21, 2005 at the Hyatt Lexington. Note time and location of meeting subject to change; ample notification will be given if such a change occurs.

APPROVED: _____

PRESIDING OFFICER: _____

SECRETARY: _____